

The Greek Crisis and the Need for Constitutional Reform in the Eurozone

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The latest act of the Greek tragedy is at play. Following the elections that took place in Greece in January 2015, new negotiations have started between the Greek anti-austerity Government lead by Syriza and the pool of European and international creditors over the terms of the bailout agreement. Swept into power by a clear electoral mandate to end the austerity policy of the troika and to redress the humanitarian crisis, the new Greek government has clashed with its creditors, who conditioned the award of financial support to the adoption of domestic economic and social reforms. The Eurogroup, the informal grouping of minister of finance of the Eurozone member states, has offered the forum in which negotiations between the parties has unfolded. However, bargaining between Greece and its peers has quickly turned into a bilateral confrontation, with the tense relations between Greek Finance Minister Varoufakis and German Finance Minister Schäuble capturing the attention of the mass media.

The evolution of the Greek tragedy is still ongoing. After the Eurogroup soundly rejected initial proposals by Greece for a marked policy shift, on 20 February 2015 the Greek government obtained from its peers a 4-month extension of its current bailout agreement, to give time to the Greek authorities and the pool of creditors to agree on a new detailed plan of economic reforms. Subsequently, Greece presented on 5 March 2015 a more specific list of reforms to be implemented as a condition for financial support, which met only with halfhearted approval by the Eurogroup, and negotiations are continuing (under the shadow of the ECB oversight on the liquidity of Greek banks) both at the technical and political level with the aim to agree on a re-financing plan before the summer. Nevertheless, beyond the technicalities, the events connected to the re-negotiation of the Greek bailout confirm a number of long-standing features of the form of governance of the Eurozone, and call for urgent reforms in the EU constitutional system.

First, economic governance in the Eurozone remains premised on an intergovernmental bargaining between member states. While with the Maastricht Treaty the EU member states agreed to establish a purely federal ECB, they refrained from creating an equally supranational economic policy by empowering the EU institutions. Instead, they left economic policy as a matter for domestic politics, subject to intergovernmental coordination. The euro-crisis has swept away the expectation that this would ensure the smooth functioning of EMU. Nevertheless, member states responded to the crisis by creating institutions such as the EFSF and the ESM which again work on the basis of an intergovernmental logic. In this context, it is not surprising that the confrontation over the Greek fiscal crisis has resulted in a clash between member states – Greece vs. Germany (the richest EU member state, and the main contributor to the EU rescue funds) – rather than in a confrontation between alternative economic policy programs.

Second, in an intergovernmental framework such as the one of Eurozone governance, state power matters, and larger and wealthier states dominate over smaller and poorer member states. As I have explained [here](#), the EU had historically been founded on a delicate compromise between state power and state equality. However, since the eruption of the euro-crisis, the rise of intergovernmentalism in EU governance has upset this balance, leading toward a dynamic of domination by larger/wealthier states over smaller/poorer ones. The situation in Greece seems to confirm this. Despite the rhetoric in Athens, the new Greek government has not been able to start a new economic deal, given opposition from its stronger creditors: Finance Minister Varoufakis had to concede that any policy of the Greek government would have no negative fiscal effect. And while the Greek government repeatedly called for discontinuing troika, it only obtained its cosmetic re-naming as “the institutions”, with unchanged powers.

Third, following immediately on the previous point, it is clear that the intergovernmental framework of EU governance poses a major challenge to democracy. As the handling of the Greek crisis is making clear, Greek citizens are unable to shape their destiny through the electoral process (since their wishes for a clear shift away

from austerity have been thwarted). And if they were, this would imply that German citizens would be unable to shape *their* destiny through the electoral process (since their wishes for only limited financial support to Greece would be disrespected). The Eurozone is based on separate claims of national democracies that cannot be reconciled. In fact, it is precisely because voice is so limited that exit becomes such a viable option: the rise of extreme parties, and street riots in Athens (and now also in Frankfurt) are the inevitable result of a situation in which the people do not find a way to channel their discontent. As much as the Vice-President of the European Commission Jyrki Katainen may believe that “[we don't change our policy according to elections](#),” that's what democracy is all about.

And this is why the need for constitutional reforms of the Eurozone is more urgent than ever. To begin with, the Eurozone needs a [fiscal capacity](#) through which it can provide support to countries in fiscal troubles outside the logic of inter-state transfers. Moreover, the institutional system of governance must be [overhauled](#), creating political institutions which can take decisions legitimately and effectively outside the logic of intergovernmental negotiations, with its related problem of domination. It is ironic that Germany was historically willing to take steps in this direction, while Greece was always in favor of an intergovernmental approach and wary to “cede” its sovereignty to supranational authorities. The tragedy of the Greek crisis however set aside any expectation that intergovernmentalism will protect the interest of the small states – least ensure a functioning governance process in the Eurozone. EMU is an incomplete project. But perfecting our Union of states and citizens through bold institutional reforms should be the aspiration of politicians willing to leave a legacy in history.

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